

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Bar Harbor Bankshares

Point of Contact:	Joseph M. Murphy	RSSD: (For Bank Holding Companies)	1115385
UST Sequence Number:	256	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	18,751,000	FDIC Certificate Number: (For Depository Institutions)	11971
CPP/CDCI Funds Repaid to Date:	18,751,000	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	January 16, 2009	City:	Bar Harbor
Date Repaid ¹ :	2/24/2010	State:	Maine

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

This benefit was reported in our survey response for 2009. As we only held CPP funds for about seven weeks during 2010, and during our slowest business season, the impact of the CPP funds was minimal during that period with regard to enabling lending above historical levels.

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

Support for increased lending was academic during this period as noted above, with the singular exception of increasing the bank's legal lending limit during the period in question. However, we did not have any opportunities to make use of that limit at that time.

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Bar Harbor Bankshares

X Increase securities purchased (ABS, MBS, etc.).

Our securities investments during the first quarter of 2010 anticipated the imminent repayment of CPP capital and the acquisition of common equity through the just-completed equity raise. therefore, on a net basis, CPP did not effect our investment decision strategies as they had the prior year.

X Make other investments.

No impact in 2010.

X Increase reserves for non-performing assets.

The bank was able to manage its ALLL requirements during 2010 without regard to CPP capital.

X Reduce borrowings.

No impact in 2010.

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Bar Harbor Bankshares

☐ Increase charge-offs.

☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

No impact in 2010.

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Bar Harbor Bankshares

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

As we raised common equity in late 2009 and early 2010 for the express purpose of retiring the CPP-related preferred stock, our only consideration during 2010 was to retire CPP capital as quickly as possible, which we did.

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Bar Harbor Bankshares

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

This is an interesting question. If we had not obtained CPP funding to increase capital, we would have had to restrain loan growth in order to conserve capital throughout 2009 and perhaps beyond. With the capital strength of the CPP funds on our balance sheet, we were able to increase lending in all our lines of business without regard to specific capital conservation, particularly in commercial lending, which requires a 100% risk-based capital consideration. In addition, we were able to amplify our participation in MBS investments at a time when yields were very favorable. All things considered, we were able to improve our Net Interest Margin and our asset volumes at precisely the right time in a very volatile business cycle. As a result, we were able to record a record performance year during a weak economic environment. This performance increased the credibility of the company, which in turn facilitated the effectiveness of our common equity raise at exactly the right time in the cycle again. We believe that our participation in CPP was beneficial to permit our institution to focus on supporting our economic communities without interruption or distraction, while executing repayment of CPP capital at exactly the right time. We believe our CPP experience honored the intent of the program to maximum good effect and we are glad we participated. If we had not, we would have been frozen in place with a weaker balance sheet that would have been totally focused on internal capital preservation at the expense of local economic growth. We have said as much in our shareholder communications.

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Bar Harbor Bankshares

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.